

Message Text

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PAGE 01 STATE 280694

73

ORIGIN EB-07

INFO OCT-01 AF-04 ARA-06 EUR-12 EA-06 NEA-06 ISO-00 FEA-01

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FPC-01 H-01 INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-01 PA-01 USIA-06 PRS-01 IO-10 /120 R

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TREASURY - MR. JOHNSON (SUBS)

TREASURY - MS. PETERSON

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R 240053Z DEC 74

FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

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AMEMBASSY VIENNA

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PAGE 02 STATE 280694

C O N F I D E N T I A L STATE 280694

E.O. 11652:GDS

TAGS: ENRG

SUBJ : OIL PRICES: HOW CONSUMERS AND PRODUCERS MIGHT
DISCUSS THEM

REF: TEHRAN 10431

1. DEPARTMENT APPRECIATES EMBASSY'S IDEAS, WHICH IT WILL
CONSIDER AS PART OF INTENSIVE REVIEW OF ISSUES BEING
CONDUCTED IN CONNECTION WITH EVENTUAL CONSUMER/PRODUCER
CONFERENCE.

2. MARTINIQUE COMMUNIQUE PROVIDES FOR PROCEEDING TO SUCH
MEETING IN FOUR INTER-RELATED SEQUENTIAL STAGES.
NECESSARY PREPARATIONS FOR CONSTRUCTIVE CONSUMER/PRODUCER
DIALOGUE ALSO SPELLED OUT IN SECRETARY'S CHICAGO SPEECH.
STATE 276016 GIVES ESSENTIAL GUIDANCE ON OIL CONSUMER/
PRODUCER NATION MEETING.

3. WE CONSIDER INDEXING OF OIL PRICES WOULD INSTITU-
TIONALIZE THE PRESENT OLIGOPOLISTIC PRICE OF OIL, WOULD
BE INFLATIONARY BECAUSE THE PRICE OF OIL IS ITSELF A
SIGNIFICANT FACTOR IN THE PRICES OF A WIDE RANGE OF
INDUSTRIAL AND AGRICULTURAL GOODS AND RIGID INDEXATION
WOULD BE ECONOMICALLY INEFFICIENT, BECAUSE IT WOULD SET

OIL PRICES IN TERMS OF SUPPLY AND DEMAND FOR OTHER GOODS
RATHER THAN THE SUPPLY AND DEMAND SITUATION IN THE
MARKET FOR OIL. IN ADDITION TO THESE POLICY DIFFICUL-
TIES, WE HAVE SERIOUS DOUBTS THAT A PRACTICAL AND
FEASIBLE SCHEME SERVING BOTH CONSUMER AND PRODUCER
INTERESTS COULD BE NEGOTIATED AND IMPLEMENTED.

4. FYI. EMBASSY'S COMMENTS ON POSSIBLE ADVANTAGES OF
INDEXING OF OIL PRICES ARE INTERESTING BUT MUST BE
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PAGE 03 STATE 280694

CONSIDERED IN CONTEXT OF CURRENT PRESSURE FROM PRO-
DUCERS OF OTHER COMMODITIES TO INDEX THEIR GOODS.
GENERAL INDEXING OF WORLD TRADE WOULD FREEZE PRICE
RELATIONSHIPS AND RAPIDLY DENY WORLD ECONOMY THE
BENEFITS OF MARKET'S DISCIPLINE AND ALLOCATIVE ROLE.
EVEN IF INDEXING WERE FOUND TO BE THE LEAST UNATTRACTIVE
AMONG OPTIONS IN A CARTELIZED OIL ECONOMY, IT COULD
NOT BE CONTEMPLATED WITHOUT REFERENCE TO BROADER

QUESTIONS OF INDEXATION. END FYI.

5. THE EMBASSY SHOULD NOT GIVE IRANIANS ANY REASON
TO BELIEVE THAT WE HAVE CHANGED OUR POSITION IN
OPPOSITION TO INDEXING OF OIL PRICES AND SHOULD DRAW
ON STATEMENTS IN PARA 3 ABOVE IN FUTURE DISCUSSIONS ON
INDEXATION. KISSINGER

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